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A STUDY OF
CALGARY POWER LTD.



PREPARED BY
RESEARCH DEPARTMENT
ROYAL SECURITIES CORPORATION LIMITED



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CALGARY POWER LTD.
(Capitalization as at December 31, 1967)

Funded Debt.....	\$99,432,000
Notes Payable.....	\$13,300,000
Preferred Shares*.....	\$27,000,000
Common Shares n.p.v.....	5,250,000 shs

* Includes \$15,000,000 of \$100 par value convertible preferred shares convertible at a rate of 3 2/3 common shares for each preferred to November, 1971, and thereafter at 3 common shares for each preferred until 1976 when conversion rights expire.

Current: 21	Dividend: 80¢	1967 Earnings: \$1.59
1967/8 Range: 26 - 18½	Yield: 3.8%	P.E. Ratio: 13.2 : 1

The net earnings per share of Calgary Power should soon begin to break out of the narrow range in which they have moved since 1962. With the added burden of dividends on the new preferred (equivalent to 16 cents per share of common), earnings for 1967 were reported at \$1.59 a share against \$1.58 in 1966.

This year's earnings are expected to be about \$1.65 per share despite additional interest and depreciation charges because of the new Wabamun thermal unit. These deductions will amount to the equivalent of about 30 cents a share annually after tax.

No further units will be added until 1971. Consequently, the consistently improving utilization of Calgary Power's facilities should generate a per share earnings growth of about 7 to 7½% annually starting in 1969. The units to be installed in the early 1970's will not be as large in relation to existing capacity as the last round of expansion, and only minor and temporary slowdown of the rate of earnings growth is anticipated at that time.

Calgary Power provides depreciation in an amount equivalent to a composite 3% rate which it regards as economic. This is higher than the approximate

average of $2\frac{3}{4}\%$ reported by the U. S. Federal Power Commission. A one-quarter of one percent change in depreciation allowance last year would have represented about six cents a share.

Calgary Power supplies about two-thirds of Alberta's requirements, and its kilowatt-hour sales have been increasing at an annual rate of 10% since 1962 despite competition from natural gas. This annual gain should be maintained and the Company has been actively engaged in making provision to meet the expanding demand.

Gross revenues, however, during the past five years have risen at the slower rate of $6\frac{1}{2}\%$ annually because of rate reductions in 1963 and 1966. Net revenues have lagged far behind as a result of the direct and indirect costs of capital and other expenditures and higher costs generally. We now look for a much closer relation between the increase in energy sales, gross revenues and net per common share.

General rate reductions, which have exerted pressure on earnings, are not expected to continue. The high cost of money for new financing and rising price levels scarcely justify lower rates. Moreover, consumers will benefit from the annual rebate commencing in 1969 of 95% of the federal income tax which continues to be paid by the Company. Details of how the return of tax payments is to be passed along by Calgary Power to consumers have not yet been announced, but it will have the effect of a reduction in rates without affecting the Company's income, and should stimulate sales.

Capital expenditures have averaged an amount equivalent to an annual rate of about 10% of existing assets. By 1973, total generating capacity will be about 40% larger with most of the expansion completed in 1971 and 1972.

Additional hydro facilities provide for better flexibility through an improving ratio of hydro-peaking capacity to thermal base-load capacity. Moreover, new thermal plants are more effective and Calgary Power's coal costs are lower than for comparable plants elsewhere. A second coal mine is being prepared for the Company's next thermal plant and should provide still relatively cheaper coal.

Calgary Power follows the conservative accounting procedure of providing for future income taxes. While this may reduce reported earnings per share, it adds a degree of flexibility to the rate structure by providing an important source of funds for construction during the period of heaviest expenditures. Also, because the deferred taxes fluctuate widely, stability is added to reported earnings.

Essentially, the 60% addition to generating capacity in recent years and the further 40% which is now under construction, provide a much broader base for Calgary Power's earnings. Capital additions for an electric utility require several years of construction before completion. Moreover, further time is required before optimum operation is attained. The benefits of the new units are just now beginning to be apparent and will become more so as the utilization of such facilities increases.

FINANCIAL SUMMARY
(Years ended December 31)

<u>INCOME ACCOUNT</u> (000's)	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Gross Revenue	\$30,681	\$32,072	\$34,558	\$37,672	\$38,740	\$41,930
Operating costs	8,502	10,043	10,445	11,229	12,651	14,825
Income tax paid	4,410	4,602	3,738	3,764	3,751	4,220
deferred	2,060	1,338	1,992	2,506	1,459	2,440
Depreciation	5,101	5,500	5,800	6,400	6,900	7,400
Operating income	<u>\$10,608</u>	<u>\$10,589</u>	<u>\$12,583</u>	<u>\$13,773</u>	<u>\$13,979</u>	<u>\$13,045</u>
Interest	<u>1,845</u>	<u>3,313</u>	<u>3,244</u>	<u>4,047</u>	<u>4,048</u>	<u>3,321</u>
Net income	\$ 8,763	\$ 7,276	\$ 9,339	\$ 9,726	\$ 9,931	\$ 9,724
Preferred dividends	535	535	535	535	535	1,374
Appropriations for reserves for rate reduction	<u>250</u>	<u>(250)</u>	<u>900*</u>	<u>1,000*</u>	<u>1,100*</u>	<u>-</u>
Available for common	<u>\$ 7,978</u>	<u>\$ 6,991</u>	<u>\$ 7,904</u>	<u>\$ 8,191</u>	<u>\$ 8,296</u>	<u>\$ 8,350</u>

BALANCE SHEET ITEMS

Net Plant (millions)	\$ 150	\$ 162	\$ 177	\$ 196	\$ 217	\$ 239
Capitalization Ratio						
Long-term debt	56.9%	58.3%	58.4%	58.9%	52.8%	54.4%
Preferred stock	9.1	8.2	7.6	7.0	14.2	13.0
Common equity	<u>34.0</u>	<u>33.5</u>	<u>34.0</u>	<u>34.1</u>	<u>33.0</u>	<u>32.6</u>
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

PER SHARE DATA

Earnings	\$ 1.52	\$ 1.33	\$ 1.50	\$ 1.56	\$ 1.58	\$ 1.59
Depreciation	0.97	1.05	1.10	1.22	1.31	1.41
Deferred tax	<u>0.39</u>	<u>0.25</u>	<u>0.38</u>	<u>0.48</u>	<u>0.09</u>	<u>0.46</u>
Cash flow	<u>\$ 2.88</u>	<u>\$ 2.63</u>	<u>\$ 2.98</u>	<u>\$ 3.26</u>	<u>\$ 2.98</u>	<u>\$ 3.46</u>
Dividends	55¢	60¢	60¢	65¢	70¢	72½¢
Price Range:	25½-17½	25-20	25-19⅝	28-19½	30-20⅜	26-21

* Income tax savings from the coal mining operation.

The Company supplies electricity to some 135,000 customers directly and 115,000 indirectly through wholesale contracts. In aggregate Calgary Power supplies about 65% of all electric energy consumed in Alberta. Over the past 15 years the major load sectors have grown at the following annual rates: town retail 13%, wholesale and other utility 12½%, industrial 9% and rural 15%.

Distribution of Energy Sales				
	1952	1957	1962	1967
Town retail	13%	14%	16%	17%
Wholesale & other utility	36%	35%	40%	41%
Industrial	46%	44%	36%	33%
Rural	5%	7%	8%	9%

Comparison of electricity dollar & volume sales 1966

	% of kwh sales	% of dollar sales	Apparent mill rate /kwh
Residential, General			
service & Small industry	15.5%	31%	24
Industry	35%	30%	10
Cities & Towns wholesale	41%	24%	7
Farms	8%	13%	18
Miscellaneous	N.A.	2%	N.A.

The apparent mill rates are distorted by several factors. Farm services include low cost irrigation power supplied during the off-season. Industry includes a large number of higher cost to service oil well pumps and service to large industrial users taking a relatively steady load is at a price less than that to wholesale cities which charges have to provide for larger fluctuations including seasonal variations.

The largest wholesale customer is the City of Calgary which accounts for about 37% of the total energy sales and 22% of dollar revenues. A new contract was recently signed with a minimum time period to 1980. It is subject to termination on 10 years' notice starting in 1970. Maximum contract demand is 550,000 kilowatts against the previous 300,000 kw. The recent December peak demand was estimated to be slightly above 300,000 kw. Prices were reduced by about 7½% in 1966 and gradual reductions of less than one percent will come into effect annually until 1972. Of course load factors are expected to rise.

Red Deer takes about 2½% of the total load. A new ten-year contract was signed in 1966, reducing cost of power to the city by about 10%.

The remainder of the Company's sales are well distributed. The town retail group includes two cities and about 150 towns, villages and hamlets served under franchise agreements and over 300 communities, together with individual rural services, served under permissive orders approved or granted by the Public Utilities Board. About 5,000 oil wells are included in the 7,060 industrial customers. More than 41,000 farms are served by Calgary Power.

Franchise agreements (generally negotiated for 20-year periods with a 10-year renewal period) provide that on termination the municipality has the right to purchase the Company's distribution system. To date this right has never been exercised but Jasper Place, a residential suburb of Edmonton - and recently annexed by Edmonton - will be taken over by Edmonton early in 1969 at the franchise termination at a price based on the value of the system. Edmonton has its own generating plant and distribution system. Jasper Place revenues amount to about \$1.5 million per annum. In view of the high cost of money, interest on the payment will tend to offset in part lost profits.

This move by Edmonton seems to be an isolated case. The trend appears to be going the other way because of the high cost of capital and elimination of most of the tax discrimination as a result of rebate of income tax by the provincial government. Several municipalities who are supplied wholesale power by the Company are talking with Calgary Power to see whether suitable arrangements can be made to sell the municipally owned distribution systems to the Company.

During 1967 Calgary Power's electricity sales rose by about $9\frac{1}{2}\%$. Stimulated by the addition of several new industrial loads last year and this year load growth is expected to be up by 11% - 12%. Over the longer term a $9\frac{1}{2}\%$ annual electricity sales growth rate is anticipated.

Industry is a leading sector in the current demand. The Province's efforts to attract secondary industry will continue to bolster demand supported by the tax rebates which will effectively constitute a rate reduction.

Some major current expansions include Stelco expansion of its Edmonton mill, Dow Chemical and various oil and gas facilities.

The energy market in Alberta is very competitive. We feel that Calgary Power, offering economies of scale based on its large sales base, low cost coal and continuity of supply through a number of generating units can maintain its position in relation to other energy sources. Rising gas costs and tight money are making total energy schemes and self-generation based on natural gas less attractive.

Other than electricity services the Company has interests in some water supply systems acquired or constructed concurrently with the acquisition of electric franchises. These systems account for about \$500,000 in operating revenue. Other subsidiaries or interests include:

Farm Electric Services Ltd. A non-profit subsidiary which acts as agent for associations of farmers (Rural Electrification Associations) which own rural distribution systems.

Kanelk Transmission Company Ltd. Kanelk owns the British Columbia segment of a transmission line that extends from the Company's Kananaskis River Hydro plants to the Crowsnest Pass in Southern Alberta.

The Alberta Southern Coal Company Ltd. Coal reserves near the Wabamun steam plant are held by this Company.

Western Fly Ash. Calgary Power holds an interest in this Company which acts as sales agent for the ash from the steam plant. Earnings from this source are unimportant.

Calgary Water Power Company Limited. This Company is inactive.

CALGARY POWER LTD. PLANT

GENERATING FACILITIES: The Company obtains power from its own thermal and hydro units and minor purchases. The following table shows the breakdown of plant capacity in kw:-

	<u>1958</u>	<u>1963</u>	<u>1968</u>	<u>1973 projected</u>
Hydro	240,000	325,000	680,000	870,000
Thermal	144,000	283,000	568,000	854,000
Generating capacity	384,000	608,000	1,248,000	1,724,000
Purchased	25,000	15,900	5,000	nil
Total capacity	409,000	623,900	1,253,000	1,724,000

HYDRO: There are 12 hydro-electric plants. Eleven are located on the Bow River and its tributaries accounting for slightly less than half of capability and the newest plant in the process of development (units commissioned in 1965 and 1967) is located on the Brazeau River. These 12 plants produce about one and one-half billion kilowatt hours per annum.

THERMAL: The Company operates a steam electric plant at Wabamun (about 42 miles west of Edmonton). There are four generating units: two units of 66,000 kw capacity - one uses gas, the other has been converted to coal. The two other units are also coal-fired; the third has a 150,000 kw capability and the fourth, just being fully commissioned 286,000 kw. The coal comes from the Company-owned strip coal mine.

PURCHASED: By an agreement with the City of Medicine Hat, the Company was entitled to purchase half the capacity of a 30,000 kw steam generating unit in Medicine Hat for a term expiring July 1967, or the useful life of the plant, whichever is later. The City may, on notice, take over additional portions of the capacity of this unit up to its total capacity.

The City has taken over all but one-sixth of the plant. Medicine Hat's load growth will probably necessitate taking over this last small amount soon.

Calgary Power has entered into an agreement to take 75,000 kw or half the capacity of the Canadian Utilities new Battle Creek generating unit. This share will be taken in 1969 and the quantity of electricity taken will reduce rapidly and may be phased out completely by 1971/2 when the new Sundance (discussed below) is fully operational.

PLANNED CONSTRUCTION:

BRAZEAU: Work has started on a project to raise the level of the Brazeau Dam and to construct a permanent spillway section. Completion is expected in mid-1969.. This will not increase generating capability because all the water that flows in the river currently goes through the generators but the added storage capacity will enable the Company to hold more of the spring runoff until peaking time in the winter. This will significantly increase the Company's flexibility by adding to peaking capability. In addition the increased storage capacity enhances the ability to add further units which will be added at three or four year intervals depending on the pattern of load growth. Tentatively a third unit may be expected to come on stream shortly after the next thermal unit is added.

In 1959 Calgary Power started developing the Brazeau River; ahead of its time if considered for power purposes because its potential capacity for carrying peak loads is in excess of current needs. The reason for early development was to help alleviate pollution in the North Saskatchewan River of which the Brazeau is a tributary.

Calgary Power constructed the initial storage works for the provincial government at a cost of \$14 million and undertakes to purchase these works at such cost by October 1980 or by the time the generating capacity in the Brazeau plants has reached 550,000 kw, whichever is the earlier. In the meantime Calgary Power has the right to use and add to the storage and will bear the cost of its operation. Under this agreement the province receives the necessary water for pollution control at lower cost than it could have obtained by building the dam independently. At the same time Calgary Power produces power at no greater cost than that possible from alternative sources.

The first 150,000 kw unit cost about \$21 million, the second, of 190,000 kw, about \$6 million.

SUNDANCE: The Company has started construction of a second steam electric plant of which the first 286,000 kw unit is expected to be placed in service early in 1971. The Sundance site is on the south shore of Lake Wabamun the existing Wabamun thermal plant is on the north shore. The entire plant when completed - tentatively 1980 - may have a capability of 1.3 - 1.6 million kw.

COAL OPERATIONS:

The Company has one strip mine operating on the north side of Lake Wabamun the site of the existing thermal plant. This has a potential reserve of 70 million tons of strippable coal controlled by Calgary Power. Overburden can be stripped at the rate of 9 million cubic yards per annum by a \$3 million giant walking dragline. Such a rate can uncover up to $2\frac{1}{2}$ million tons of coal. Coal consumption at the Wabamun plant was about 1.1 million tons in 1966, $1\frac{1}{4}$ million tons in 1967 and could peak at 2.4 million tons for the plant.

On the South (Sundance) side of the lake estimated reserves are in the neighbourhood of 100 million tons controlled by Calgary Power. When the Sundance plant reaches its projected total capability coal demands may be in the order of four million tons per annum. Despite rising price structures the second mine is expected to be as cheap as the first because the seams are broader, the coal of slightly higher quality and we understand that mining conditions are generally better.

There are adequate reserves on either side of the lake for 25 - 30 years of full capacity operations. The time period will be more than sufficient to provide coal to the generating plants over their projected economic life.

TRANSMISSION:

Because of the high rate of load growth the Company's main transmission lines are continually being upgraded. Currently the backbone of the system is the 230 kv lines covering most of the central part of the province. It appears that the move to extra-high voltage main transmission may come in the mid-70's.

Transmission and Distribution Lines

	<u>1957</u> <u>Miles</u>	<u>1962</u> <u>Miles</u>	<u>1967 est.</u> <u>Miles</u>
COMPANY OWNED:			
Main transmission owned			
240 kv	-	240	374
138 kv	970	1,303	1,759
66 kv	955	1,206	1,500
33 kv or less	<u>2,596</u>	<u>2,723</u>	<u>3,080</u>
TOTAL MAIN TRANSMISSION	4,521	5,472	6,713
DISTRIBUTION (includes Co. owned rurals)	4,579	6,843	8,460
FARM LINES OPERATED FOR REA'S*	19,848	25,186	29,300

* Rural Electrification Associations.

REGULATIONS:

The Company is regulated under the Water Resources Act of the Province of Alberta which, with respect to rates, is administered by the Public Utilities Board. Other utilities in the Province are regulated by

the Board under the Public Utilities Board Act of Alberta. Each act specifies a different set of conditions with respect to composition of rate base, calculation of depreciation and calculation of rate of return.

The Board has not ordered a rate of return for Calgary Power under the provisions of the Water Resources Act. There are, however, precedents for gas companies under the other Act. Rulings of a $7\frac{1}{2}\%$ to $7\frac{3}{4}\%$ rates of return on original cost net rate bases were set in 1959. These are undoubtedly low under current conditions. New debt costs prior to that year had generally been less than $5\frac{1}{2}\%$ and higher rates have prevailed since. In addition higher allowable rates of return should now apply because of today's high rate of inflation.

While it is not possible to make direct comparisons of the returns earned by Calgary Power and those allowed the gas distribution companies, it is evident that the Company's earnings under current conditions are reasonable and, it is unlikely that a downward adjustment in the Company's earned return will be ordered over the foreseeable future.

Reference has been made in previous annual reports to a rate examination. An application had been made by the City of Red Deer and the Town of Jasper Place, to the Public Utilities Board, for a review of Calgary Power's rates and charges. Also, the Alberta Government requested the Public Utilities Board to examine the rates and charges of all electric utilities operating in the Province. The rate examination was delayed pending the outcome of legal proceedings with respect to the interpretation of the Water Power Regulations. Subsequently Red Deer signed a new long-term contract with Calgary Power on mutually acceptable terms and withdrew from the court action. Legal action then lapsed.

Earnings Outlook Based on Rate of Return Calculation:

Taking the 1959 spread between a $7\frac{1}{2}\%$ rate of return and a $5\frac{1}{2}\%$ debt charge would indicate that if a current allowable rate were to be specified it might be something more than one percent above current interest rates (of say $7\frac{3}{4}\%$) cost to Calgary Power of new money. One should not however suppose that all new plant coming into service would enjoy such a spread. A large part of new additions were planned three and four years ago when the interest rate structure was lower. Also a large part of the plant and debt was acquired in periods of significantly lower cost structures. It seems reasonable to project earnings on a rate of return basis using a split rate; the existing rate less allowance for diminution because of inflation on existing plant and an $8\frac{1}{2}\%$ return on current expenditures. This $8\frac{1}{2}\%$ allows for the combination of slightly higher return expected on current expenditures and a lower rate on previous commitments now coming to fruition. Further assumptions are a $7\frac{3}{4}\%$ cost on new money, a 50% payout and a 10% annual addition to assets.

Using 1966 as a starting point and allowing in 1967 for the preferred dividends the projection is as follows:

<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
\$1.58	\$1.57	\$1.64	\$1.73	\$1.85	\$1.98	\$2.10

The projection of earnings should not be considered as predictions (for example 1967 earnings were reported at \$1.59 per share, two cents higher) but might be used to determine the order of growth that is expected.

BALANCE SHEET & ACCOUNTING

The asset side of the balance sheet is perfectly straight forward but some comments may be made about some of the liabilities and equity.

FUNDED DEBT: The sinking fund requirements are running at about \$1 million annually. There are no major redemptions until 1972 when roughly \$26 million of currently outstanding low coupon debt will mature. The average interest on this debt is fractionally under 4%. While it is invalid to assume that current record high interest rates will be the case five years from now the difference between 4% and $7\frac{3}{4}\%$ interest is equivalent on an after tax basis to about 9¢ per share.

NOTES PAYABLE TO FARM ELECTRIC SERVICES LTD.: These funds are used on the authority of the rural co-operatives and approved by the Alberta Supervisor of co-operative activities and are in effect loans from the depreciation reserves of these co-operatives. The portion of Notes maturing are generally rolled over at the current bank prime rate. These Notes will not be as significant a factor in the Company's capitalization in the future because of the completion of rural electrification programmes.

DEPRECIATION: The Company makes provision for depreciation in an annual amount which works out to about 3% of the property account. This figure was derived from a comprehensive study completed in 1964 of properties, plant and equipment. In view of rising replacement costs and obsolescence this is not excessive. The U. S. Federal Power Commission reports average rate of provision for U. S. utilities. While no current figures are available we believe a reasonable current estimate would be $2\frac{3}{4}\%$ on the average. The trend of the FPC average in recent years has been upward.

If we add to the 1967 appropriation for depreciation on the basis of 3% per annum from the time assets come into operation the following pattern for depreciation might be reasonable.

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Gross (millions)	\$ 6.9	\$ 7.4	\$ 8.3	\$ 9.0	\$ 9.5	\$10.0
Per Share	\$1.31	\$1.41	\$1.58	\$1.71	\$1.81	\$1.90

RESERVE FOR RATE REDUCTION - COAL MINE TAXES

The Company's three year tax exemption on its first coal mine ran out at the end of 1966. The associated tax saving amounted to some \$1 million per annum, which is equivalent to 19¢ per share for each of the three years. This saving has not been included in the reported earnings, but has been set aside as a reserve for rate reductions. By the end of the year this reserve will total approximately \$3 million, or 57¢ per share. The most recent case other than the foregoing in which the Company set up a reserve for rate reductions was in 1962. Then, however, the reserve was included with reported earnings but was segregated from retained earnings. In 1963 the reserve was transferred back into retained earnings, and so in neither year was there any effect on reported earnings. This method is not applicable in the current case because reported earnings have been affected already. The Company has not announced how it intends to use the reserve and taxation assessment is not final yet.

An allowance in lieu of depletion of 10¢ per ton is allowable in coal mining for income tax purposes. In 1967 the tax saving amounted to 1¢ per share, which was taken into the accounts in the normal way.

EQUITY & THE DEBT/EQUITY RATIO

The Company issued preferred stock late in 1966. The shares, unlike previous preferred issues, are convertible at a rate of 3 2/3 common shares for each preferred up to November 1971 and thereafter 3 common shares for each preferred until November 1976 when conversion rights expire.

The potential dilution from the conversion of the preferreds is 10%. But conversion would reduce preferred dividend requirements and the effect of conversion on current common share earnings would be small. For example in 1967 earnings per common share were \$1.59 and on a fully diluted basis earnings might be \$1.58.

The debt/equity ratio at the end of 1967 is estimated to be:

Funded debt 1st Mtge. bonds	48%
Notes	6%
Equity	46%

The restrictions on new debt except for refunding are:

a) Earnings before bond interest, depreciation and income taxes shall not be less than the larger of either:

- (i) three times interest charges on outstanding and proposed to be issued bonds. This amounts to about \$15.8 million for bonds currently outstanding, or
- (ii) 12% of the principal amount of the bonds currently equivalent to under \$12 million.

Both requirements are easily covered by the more than \$27 million earnings before depreciation, taxes and debt charges.

b) Additional first mortgage bonds may be issued up to two-thirds of the lesser of cost or fair value of property additions since 1947. For practical purposes, because of the Company's substantial growth the debt may be compared to the cost of plant less provision for depreciation, notes, customers contributions, reserve for rate reductions and current liabilities. This indicates a recent net tangible asset figure of about \$215 million which would theoretically support debt of about \$140 million against the current less than \$100 million.

Over the next five years if additions are made at a 10% rate we estimate that approximately 45% - 50% of the required funds will be provided by internally generated funds, retained earnings, depreciation and deferred tax. The asset restriction will not necessitate new equity financing over the foreseeable future.

FINANCING: Over the last ten years Calgary Power has increased fixed assets by \$190 million or \$36 per share. Approximately \$109 million or \$20 per share was internally generated through depreciation \$54 million, deferred taxes \$13 million, and \$42 million retained earnings. Bond issues over the period had a par value of about \$60 million, preferred stock \$15 million and new Farm Electric Notes \$10 million.

Capital requirements from outside sources over the next two years should be about \$15 million annually and thereafter rise at a rate of about \$1 - \$2 million annually.

<u>Year</u>	<u>Increase in Fixed Assets</u>	<u>Debtures Pfd. Stk. & Farm Elec. Notes Par Value</u>	<u>Deprec- iation</u>	<u>Deferred Tax</u>	<u>Retained Earnings</u>	<u>Reserve for Rate Reduction</u>	<u>Total</u>
1958	\$ 9,595	\$ 5,050	\$ 3,005	\$ 978	\$ 3,045		\$12,078
1959	9,601	900	4,003	700	3,203		8,806
1960	11,256	1,200	4,503	612	4,237		10,552
1961	21,319	11,000	4,802	865	4,917		21,584
1962	22,210	9,500	5,101	2,060	4,933		21,574
1963	17,362	10,200	5,500	1,338	3,591		20,629
1964	20,351	8,150	5,800	1,992	4,755	900	21,597
1965	24,124	9,600	6,400	2,506	4,778	1,000	24,284
1966	27,195	15,750	6,900	449	4,621	1,100	28,820
1967	28,075	13,100	7,400	2,440	4,544	-	27,484
	<u>\$191,088</u>	<u>\$84,450</u>	<u>\$53,414</u>	<u>\$13,940</u>	<u>\$42,624</u>	<u>\$3,000</u>	<u>\$197,428</u>

Over the five years 1968-72 we estimate that internally generated funds will amount to about \$85 million. If additions are made at the rate of 10% of fixed assets annually the total new construction over the same period will total \$180 million.

